

Introduction

Financial policies set the boundaries within which financial decisions are made by governments. Unlike the budget adopted for a single fiscal year, financial policies are long-range in nature. They are carried over from one year to the next, adding continuity and stability to a government's financial structure.

Financial policies can also serve as the foundation for a government's long-range financial plan. By adopting and adhering to these policies the Town will improve its ability to provide a balanced level and quality of services while protecting and improving the public health, safety, education and general well being of its citizens. Adherence to proper financial policies will help the Town develop flexibility to withstand external economic, environmental or other shocks or disruptions caused by factors over which it has no control while meeting the demands and challenges of natural growth, decline and change within the community.

Budget Policies

- Budget Policy 1: The Town will develop balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures.
- Budget Policy 2: The Town will not balance the budget by using one time revenues to fund ongoing expenditures. No more than 20% of a non-recurring expenditure item may be used for ongoing expenditures.
- Budget Policy 3: The Town will not use budgetary procedures that balance the budget at the expense of meeting future year's expenses, such as: postponing or deferring expenditures, accruing future year revenues, or rolling over short-term debt.

The purpose of Budget Policies One, Two and Three is to prevent the use of procedures that appear to balance the budget at the expense of our future. Delaying building and equipment maintenance or postponing the cost of operations are two of the most common procedures used to artificially create the appearance of a balanced budget. These actions merely pass today's costs onto future taxpayers and residents, and these costs usually grow as they are deferred.

Budget Policy One was developed to ensure that the Town does not spend more than it receives in revenue in any one year and therefore does not degrade its overall financial condition. This ensures that the Town does not "live beyond its means" and build a structural deficit into its budget.

Budget Policy Two helps ensure that the Town does not use one-time revenue to support ongoing operations. Simply put, this policy prevents the use of temporary funding to support ongoing needs. Such expenditures are considered unadvisable because the ongoing expenditure need will still exist after the non-recurring revenue disappears. Use of non-recurring revenue for recurring purposes only delays appropriate action to correct what would otherwise be a budget imbalance.

Budget Policy Three prevents the use of gimmicks such as expenditure deferral, booking future revenue in the current fiscal year or the inappropriate rolling over of debt. These fiscal maneuvers generally occur in times of poor financial performance and only serve to delay necessary expenditures and increase the overall cost for a community.

Budget Policy 4: The budget proposed by the Town Manager shall include the following sections: a summary of the Town's financial condition, an analysis of revenues used in the proposed budget, and the status of the reserve funds.

Budget Policy 5: The Town Manager's budget shall be considered by the Selectmen.

Budget Policies Four and Five guide the development of the Town's annual budget. Budget Policy Four requires that certain information be provided by the Town Manager along with the budget. This information will allow the Selectmen to make decisions on the annual budget with necessary information regarding the Town's overall financial condition, the condition of our capital assets and other matters of importance.

Budget Policy Five sets forth the form of budget passage by the Selectmen, in accordance with the Charter.

Budget Policy 6: The budget will provide for capital and operational expenditures. The Capital budget will be presented in the fall and the Operating budget in the spring. All budgetary procedures will conform to existing state and local regulations.

Budget Policy Six ensures that the annual budget funds necessary maintenance and capital investment. Now that the Town has a clearly delineated budget track, it is imperative that the 2 budget tracks are upheld.

Budget Policy 7: The Town Accountant shall issue a monthly report on revenues and expenditures (at the line item level).

Budget Policy Seven provides a tool for the Town Manager, Department Heads and public to monitor expenditures and ensure that revenue projections are being met.

Provision of this information is necessary to ensure accountability and prevent problems from going unnoticed by the public and policymakers.

Revenue Policies

Revenue Policy 1: The Town's annual budget shall include a revenue budget.

Revenue Policy 2: The Town will estimate its revenue with conservative methods and present this along with the balanced budget.

Revenue Policy 3: The Town shall review and update the fee schedule of each of its departments no less than every two years to ensure that costs of service are being fully recovered.

Significant attention is provided to the Town's expenditure budget to ensure that taxpayer money is expended prudently and in a cost-effective manner. The Town's revenue budget does not receive a similar level of attention but is equally as important; this budget provides the funding that is detailed in the expenditure budget. The Town can not expend more money than it expects to receive in revenue in the course of a year and therefore the manner in which revenue is estimated is very important

Revenue Policy One ensures that the Town's revenue projections will be provided along with the expenditure budget.

Revenue Policy Two ensures that revenue estimation will be conducted prudently, in a conservative manner. Overly optimistic estimates can create the appearance of a balance budget when in reality a deficit will result. According to Massachusetts State Law, any deficit that remains at the end of one fiscal year will be automatically deducted from the budget of the next; overly optimistic revenue estimates will drive reduced public spending in the next fiscal year. Underestimation of revenue can also present problems as it prevents revenue from being used to benefit the public in the year it was raised.

Many services provided by the Town benefit all residents, though others benefit only the specific users of services (building inspections, water and sewer hook-ups, marriage licenses). Revenue Policy Three is designed to ensure that user fees – fees charged for specific services provided to individuals – cover the costs of providing those services. If fee revenue is insufficient to support these services then the costs of these individual services will be paid by all taxpayers. The general taxpayer will be forced to pay the cost of a plumbing inspection, for instance, that does not benefit them.

Revenue Policy 4: The Town will maintain property assessment for the purpose of taxation at full and fair market value, as prescribed by State law.

Revenue Policy four ensures that the Town continues to regularly assess the value of property in Abington. Regular reassessments are required by Massachusetts State Law and are critical to ensuring the fairness of our system of property taxation and.

Capital Planning Policies

Capital Policy 1: The Capital Improvement Program will directly relate to the long-range plans and policies of the Town.

Capital Policy 2: A five-year Capital Improvement Plan shall be proposed by the Town Manager annually. The first year of the Capital Improvement Plan shall include the proposed capital improvements for the forthcoming fiscal year.

Capital Policy 3: Except as required by an emergency, all approved capital projects must be part of the adopted Capital Improvement Plan.

Capital Policy One merely states that the Capital Improvement Plan (CIP) must conform to the policies and long-term plans of the Town. The Plan must be consistent with our financial plans – it can not cause an unacceptably high level of debt to be incurred for instance – and should be something that strengthens and provides an overall benefit to our community. Conformance with municipal policies and long-term plans will ensure this occurs.

Capital Policy Two requires that the CIP be a five-year plan that is updated annually and submitted to the Town Council each year. The CIP is a “rolling plan” in that the first year of the plan is always the upcoming year, and years two through five represent the next four years. In this way the CIP always looks ahead four years, facilitating the planned and rational replacement, upgrade and acquisition of capital.

Capital Policy Three requires that all capital projects approved for funding be part of the CIP. The CIP is a long-term document that will facilitate planning and improve the means by which capital investment decisions are made. Funding items that are not in the CIP will undermine the effectiveness of the CIP – “why should I bother to plan if items can be funded without planning?” – and will likely result in inefficiency. Capital investments can often be made in ways that are complimentary to each other, reducing cost or inconvenience through proper sequencing. Funding capital projects that have not been approved through the capital improvement process will likely lead to inefficiency and will undermine the Town’s effort to rationally plan for its future and long-term growth.

Capital Policy 4: The Capital Improvement Plan shall include a multi-year forecast of annual debt service requirements of items in the

Plan to permit the examination of the future implication of debt issuance.

Capital Policy 5: Decisions to undertake specific capital improvements shall include in their analysis the identification and cost estimation of additional operational funding and personnel requirements.

Capital Policy 6: All proposals for capital improvements shall include sources of funding for each capital improvement or category of capital improvement. Pay-as-you-go capital funding shall be considered as a financing source for each proposed capital improvement.

Capital Policy Four ensures that the CIP demonstrates the full cost (principal and interest) of approved projects that require the issuance of debt. This analysis will help policy makers make decisions based on the total impact of a project on our community and permit longer term planning as current decisions can be made based on their future implication on the Town's debt service budget and overall capacity.

Capital Policy Five requires that all proposed capital investments include in their analysis not only capital costs but also the cost of additional personnel required as a result of the capital investment (new teachers required for a new school, for example) as well as increased operational costs. This will ensure that capital investments are made with full knowledge of the entire cost of the project.

Capital Policy Six requires the identification of a funding source for each proposed capital investment. This policy helps make each proposal more "real" by ensuring that funding is tied to each capital item. The CIP is intended to be both an identification of needs and a working document that results in the actual funding of capital. To do so requires that each capital item be proposed with funding sources attached so individual investments can be undertaken after they are reviewed and approved.

Financial Reserve Policies

Reserve Policy 1: The Town shall divide the "non recurring" portion of Free cash equally between the Stabilization Fund and the Capital Improvements Fund to provide for a conservative reserve fund and a workable capital improvements fund.

Financial reserves protect the Town from unforeseen increases in expenditures, reductions in revenues, unforeseen downturns in the economy, or any other extraordinary events. Reserves are also a source of funding for capital construction and replacement

projects. Reserves should normally average between 5% and 15% of the Town's General Fund operating revenue less debt exclusions and Chapter 70 (School Aid).

The maintenance of adequate operating reserves is essential to the financial strength and flexibility of the Town as a whole. Adequate operating reserves are an integral part of the financial structure of the Town and allow it to mitigate current and future financial risks associated with revenue shortfalls, unanticipated expenditures and natural disasters.

The Town shall, in coming years, assign a level of reserve funding.

Money in the stabilization reserve fund may be appropriated for any purpose for which the Town would be authorized to borrow money under section seven or eight of Chapter 44 of MGL or for any other lawful purpose.

Debt Policies

Debt policies are intended to sustain or enhance a government's financial stability, to evaluate a government's long-term capability to issue and repay debt, and to control debt issuances. Strong debt policies that are followed by a community also improve credit worthiness by establishing controls on the amount of debt that can be issued as well as its impact. Improved bond ratings result in lower interest rates that generate savings for taxpayers.

Debt Policy 1: The Town shall comply with debt limitations as detailed in Massachusetts General Law.

Debt Policy One requires that the Town limit the total amount of debt it issues pursuant to Massachusetts General Law. In brief, the Town shall not issue debt with an aggregate principal value exceeding 5% of the equalized valuation of taxable property without prior approval from the Commonwealth. The Town may issue debt with an aggregate principal balance of up to 10% of equalized valuation with approval of the Commonwealth.

Debt Policy 2: Short-term debt, such as bond anticipation notes, tax anticipation notes, or grant anticipation notes, may be used when it provides immediate financing and an interest rate advantage, or if there is an advantage to delaying long-term debt until market conditions are more favorable.

Debt Policy 3: Any bond anticipation debt will be retired within six months after completion of the project it financed.

Debt Policy 4: Short term debt will not be rolled over beyond two years without a principal pay down or as prescribed by state law.

Debt Policy Two permits the Town to issue short-term debt to meet immediate financing needs. The primary reason for issuing short-term debt is to provide "bridge financing" for capital projects. This financing is needed to actually conduct many bond-backed capital projects and allows the Town to avoid the expense of the multiple bond issuances that would be required without short-term borrowing. This policy also permits borrowing in anticipation of the receipt of awarded grants, borrowing for cash flow purposes in anticipation of revenue and the temporary use of short-term debt when it is preferable to the issuance of long-term debt.

Debt Policy Three requires that all bond anticipation notes (BAN's) issued to finance a capital project be extinguished within six months of the completion of the project they financed. This policy prevents the Town from carrying BAN's beyond the period in which they are necessary, reducing the interest rate risk the Town will face and ensuring the timely close out of capital projects.

Debt Policy Four requires that principal pay down occur on short-term debt carried for more than two years. Short-term debt generally only places an interest cost on a community (that is, no principal pay down is required). This may provide an incentive to carry short-term debt for as long as possible, though the result is a debt balance that never gets smaller. This policy is consistent with Internal Revenue Service rules regarding short-term debt and will help the Town reduce the long-term cost of capital projects by paying down principal before long-term bonds are issued.

Debt Policy 5: Revenue used to finance debt shall be projected in a conservative manner.

Debt Policy Five requires that revenue dedicated to debt payments be estimated in a conservative manner as is required for general Town revenues in Revenue Policy Two.

Debt Policy 6: The term of debt issued to finance capital improvements or procurements may not exceed the useful life of the asset or improvement.

Debt Policy Six ensures that debt will not be outstanding beyond the useful life of the asset it purchased or improved. This is consistent with best practices in municipal finance and prevents future taxpayers from paying for capital investments from which they are not benefiting.

Debt Policy 7: The Town shall conduct debt financing on a competitive basis unless for reasons of market volatility, unusual financing structure or a complex security structure the Town would be better served through a negotiated financing.

Debt Policy Seven requires that the sale of Town debt be conducted in a competitive manner (that is, sold on the open market) unless there is an advantage to negotiating the sale with large investors. This policy provides flexibility to conduct negotiated sales in instances when it is preferable to do so (in complicated bond issuances and when unique circumstances surround a community and its credit quality).

Future Financial Policies

These policies set forth an overall architecture for financial operations in the Town of Abington. Many other policies can be developed and it is recommended that the Town move forward in doing so. Developing additional policies can be of significant benefit to our government because they will codify the best practices under which we seek to operate and will be another opportunity for our residents to lend their expertise and interest to their government.